INTERCARRIER COMPENSATION ISSUES

Issue I.6 ***Virtual FX Traffic*** Is the jurisdiction of a call determined by the NPA-NXXs of the calling and called numbers?

Q. PLEASE DESCRIBE ISSUE I.6.

A. Issue I.6 relates to how one should determine the jurisdiction of a call when the receiving or called party is located physically outside of the calling area of the exchange to which that customer is assigned a number. It is AT&T's position that the jurisdiction of a call should be determined by the NPA-NXX of the calling and called numbers.

Verizon, however, asserts that when a Verizon customer dials a number assigned to an AT&T assigned NPA-NXX in the customer's own legacy Verizon rate center, and AT&T picks up that call in the Verizon rate center and routes that call to the AT&T customer who happens to be located in a different legacy Verizon rate center, the call should be treated as a toll call and AT&T should pay Verizon originating access charges. Since it is AT&T's position that traffic should be rated based on the NPA-NXX assigned to the customer without regard to the customer's physical location, the call described above which is to a number in the customer's own legacy rate center, would be a local call for which Verizon would pay AT&T reciprocal compensation.

Q. WHAT IS THE BASIS FOR VERIZON'S POSITION?

A. Verizon claims that such calls should be treated as toll calls because under *its* Tariff such calls would be toll calls, and because, in the absence of AT&T's

network, Verizon would collect toll revenues if it handled the call, or originating access charges if another carrier handled the call. Therefore, Verizon asserts that such calls are interexchange calls, not "local" calls, and therefore are subject to originating access charges and are not subject to local reciprocal compensation.[72]

Q DOES VERIZON'S PROPOSAL REQUIRE AT&T TO MIRROR ITS LOCAL CALLING AREAS?

A. In an indirect way it has that effect. Obviously, AT&T is free to develop whatever local calling areas it chooses for its customers. However, as we will explain in more detail later in our testimony, Verizon's proposal exerts economic pressure on AT&T to conform to Verizon's local calling area by imposing a financial penalty on AT&T when it offers a service that does not mirror Verizon's legacy local calling areas.

Q. WHAT IS WRONG WITH HAVING CLEC'S MIRROR VERIZON'S LOCAL CALLING AREAS?

A. As we testified earlier, over the past century, as modern electronic switches replaced cord switchboards and mechanical switching, the cost of transport decreased, and local calling areas have generally evolved to encompass larger geographic areas. The AT&T network has taken this development even further. The broad geographic coverage of AT&T's local switches simply does not correspond to Verizon's network architecture and legacy local calling areas. For that to occur, AT&T would have to deploy a Verizon look-alike network, and that would be highly inefficient for AT&T. Verizon's legacy local calling areas are an

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[72] Verizon Response at 62-63.

artifact of a monopoly era and Verizon's network architecture. Implementing decisions that promote the adoption of legacy local calling areas on emerging competitors limits the flexibility of the CLEC to leverage its efficient network design for the benefit of consumers.

AT&T is asking the Commission not to restrict competition by limiting customers choices based on legacy local calling areas, but rather allow technology, network efficiencies and market forces to determine what and how services should be offered in Virginia.

Q. PLEASE DESCRIBE FX SERVICE AND HOW IT IS RELATED TO THIS ISSUE.

A. Traditional FX service, which is offered by Verizon, involves the provision of local dial tone to a customer from a remote local switch; that is, a switch other than the switch from which the customer would ordinarily receive local dial tone. Verizon offers FX service as an ***exchange service*** in its Local Exchange Service Tariff. In the tariff, Verizon provides the following definition: Foreign Exchange Service is exchange service furnished from one exchange to a location in another exchange by use of Series 2000, type 2006A, Channels.[73] Verizon's Tariff goes on to state: "The long distance and local message charges and the extent of local service applicable, are the same as apply to other Local Exchange Services provided from the same foreign exchange." Thus, when a Verizon customer dials a number assigned to the customer's own legacy rate center and Verizon routes

that call to a Verizon [FX] customer who happens to be located in a different legacy Verizon rate center, Verizon treats this call as a local call, not as a toll call. That is, the Verizon end user that originated the call pays Verizon's local charges for that call.

An FX arrangement simply allows a customer to be assigned a telephone number and to receive calls as if he or she was located in a given exchange, regardless of the physical location of the customer. In the Verizon network, this is accomplished via the provision of remote dial tone – that is dial tone from the foreign switch (i.e., in a distant or foreign rate center) connected to the native serving wire center (i.e., in the home rate center) via an interoffice private line facility. The FX customer pays Verizon the cost of that interexchange transport. [74]

Q. DOES AT&T ALSO PROVIDE AN FX REMOTE DIAL TONE SERVICE?

A. No. As we will explain below, because of the differences in network architecture, it would not make sense for AT&T to provide a remote dial tone service. However, AT&T does offer its customers an FX-like local service that provides its customers with similar benefits. This local exchange service provides AT&T's customers with the ability to be assigned a telephone number in a location that is different from the customer's actual location. The service is not an FX arrangement in the traditional sense because the NPA-NNXs assigned to AT&T

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[73] Verizon Virginia, Inc., Local Exchange Services Tariff, S. C. C. –Va. –No. 202, Original Page 2, ¶ B(4)(a). This same language has been in the Tariffs filed by Verizon's predecessor, Bell Atlantic – Virginia, Inc. since at least 1995. Id. at ¶ B(4)(a)(6).

are resident in the same AT&T switch (wire center) that serves the customer's actual location. Therefore, AT&T does not require private line arrangements such as those used by Verizon to connect two separate wire centers, the one serving the customer and the one serving the NPA-NXX.

Q. WHAT ARE THE CHARACTERISTICS OF AT&T'S FX-LIKE SERVICE?

A. AT&T, unlike Verizon, offers this local service option at no additional charge to its end users. This offering is attractive to local telephone customers with a high-inbound traffic requirement that is originated over a broad geographic area. Such customers may include a taxi dispatch service, an answering service, a radio station talk show, a help desk service, an ISP, or numerous other businesses with similar telecommunications needs. AT&T sees its service offering as a way to differentiate itself from Verizon and to take advantage of the efficiency of its different network architecture. Thus, AT&T is able to offer local telephone customers a service advantage that Verizon has thus far chosen not to match.

Q. PLEASE EXPLAIN IN MORE DETAIL HOW THE DIFFERENCES IN NETWORK ARCHITECTURE ENABLE AT&T TO PROVIDE THIS FX-LIKE SERVICE IN A MORE EFFICIENT MANNER.

A. As previously described in the discussion of the POI issue, there are fundamental differences between the network architecture deployed by AT&T and the legacy network architecture deployed by Verizon. Verizon's network is comprised of numerous local switches, each of which provides dial tone to customers located within the wire center served by the switch. These local switches are connected by

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[74] See Verizon Response at 63.

tandem switches, until there is a sufficient volume of traffic to justify establishing direct connections between the local switches. Comparatively, AT&T provides dial tone out of multi-functional switches with high capacity, each of which covers multiple Verizon rate centers.

Because of AT&T's architecture, differences in transport distance are largely immaterial to AT&T's costs of providing local service. The costs to serve a customer close to AT&T's switch are not materially different than the costs to serve a more distant customer. Consequently, AT&T's network architecture allows AT&T to serve local telephone customers at relatively greater distances at comparable costs. Since traffic terminated to the NPA-NXX chosen by a customer has no appreciable impact on cost relative to the geographic location of the customer, AT&T's existing local rates do not reflect any additional charges related to the distance between the end user and his/her NPA/NXX.

Traditional FX service, on the other hand, is comprised of: (1) local dial tone to a customer from a remote end office switch (i.e., the foreign switch) - a switch other than that from which that customer would ordinarily receive local dial tone (i.e., the native switch); (2) a dedicated interoffice private line facility between the customer's serving wire center and the foreign switch; and (3) a local loop. The customer of a traditional FX service would pay Verizon for the dial-tone line and monthly fixed and per-mile charges for the dedicated interexchange facility.

AT&T's FX-like local service offering is comprised of a single switch (a single wire center) and the local loop. There is no dedicated interoffice facility

component. The key difference then is that Verizon's traditional FX service has a dedicated interoffice transport facility and a local portion (the dial-tone line), whereas AT&T's NPA-NXX offering has only a local portion.

This distinction is important since the definition of traditional FX service is the provision of dial tone from a foreign switch or exchange. In AT&T's network, dial tone is provided by the customer's native switch, not a foreign switch. Since AT&T's switch serves a much broader geographic area than do Verizon's individual local switches, AT&T is able to terminate traffic to customers within different Verizon legacy rate centers at comparable cost. Hence, from the perspective of AT&T's network, there is no difference in function or cost to terminate a call in one rate center versus another, and thus AT&T can offer this service at no additional charge to the customer as part of its local service offering. This is an important distinction because the Act defines telephone toll service as follows:

> The term "telephone toll service" means telephone service between stations in different exchange areas for which there is made a separate charge not included in contracts with subscribers for exchange service [75].

Thus, despite Verizon's assertions to the contrary, AT&T's FX-like service is not a toll service, as defined in the Act.

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[75] 47 U.S.C. §153(48).

Q. IS VERIZON'S POSITION ON AT&T'S FX-LIKE LOCAL CALLING CONSISTENT WITH VERIZON'S TREATMENT OF ITS FX SERVICE?

A. No. As we explained above, Verizon's position on this issue is inconsistent with the manner in which Verizon rates calls to its FX customers today. Verizon rates its FX calls as local or toll based on the customer's selected (foreign) rate center NPA-NXX, not on the physical location of the customer. If the NPA-NXX of the FX customer is located in the same local calling area as the called party, Verizon treats that call as local. Therefore, following the practice that Verizon has had in place for many years, the NPA-NXX of AT&T's FX-like customer, not the physical location of the customer, should be used to determine the rating of AT&T's calls.

Q. HOW IS THIS ISSUE RELATED TO THE CALLING PARTY'S NETWORK PAYS REGIME ("CPNP")?

A. According to the FCC, "Existing access charge rules and the majority of existing reciprocal compensation agreements require the calling party's carrier, whether LEC, IXC, or CMRS, to compensate the called party's carrier for terminating the call. Hence, these interconnection regimes may be referred to as "*calling-party's-network-pays*" (or CPNP)".[76]

The fundamental principle of the CPNP regime is that the party collecting the revenue for a call (*i.e.*, the originating party in the case of local exchange service) compensates the other party for the use of its network. AT&T is lawfully entitled

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[76] *Intercarrier Compensation NPRM*, ¶ 9.

to recover its costs to terminate local exchange traffic originating on Verizon's network.

AT&T's position in this case is fully consistent with the CPNP regime in place in Virginia. However, Verizon's position that CLECs should compensate Verizon in the form of access charges for AT&T's FX-like traffic when, in fact, Verizon is collecting the revenue for these calls turns the current CPNP regime on its head.

There is simply no basis for this Commission to order that AT&T's FX-like Virtual FX traffic should be an exception to the CPNP regime. The Commission should come to the only rational conclusion, that AT&T's FX-like traffic should be compensated in the same manner as all other telecommunications traffic other than exchange access and information access traffic.

Q. ARE THERE ANY OTHER PROBLEMS WITH VERIZON'S PROPOSAL?

A. Yes. Verizon's proposal would create significant technical and billing challenges. In order to implement Verizon's proposal that AT&T's FX-like traffic be treated as toll traffic rather than as local exchange traffic, the Commission would have to order that this traffic be segregated and somehow tracked separately from other telecommunications traffic. This would be an extremely costly endeavor with no public benefit.

Moreover, the industry would have to change the rules on how intercarrier traffic has been rated up to now. The current industry standard method for rating and billing calls between carriers is to measure the distance between the V & H coordinates associated with the NPA-NXX of the originating and terminating end

users. This ability is built into all of the carriers' systems and the details are fleshed out in interconnection agreements. Verizon's proposal would change all of this and require carriers to somehow segregate the Virtual FX calls and rate them separately. Virtual FX traffic is not separately identified and tracked by AT&T or, to our knowledge, by any other CLEC at this point.

Q. HOW IS THIS ISSUE AFFECTED BY THE RECENT FCC ORDER ON ISP TRAFFIC AND THE INTERCARRIER COMPENSATION NPRM?

A. The FCC has already established some interim reciprocal compensation rules for ISP and all other traffic.[77] All traffic including this FX-type traffic is currently subject to those rules. However, until the time that FCC adopts a new comprehensive intercarrier compensation regime and corresponding rules, as result of its *Intercarrier Compensation NPRM*, the existing CPNP regime remains in place.

Q. WOULD VERIZON HAVE TO BEAR ADDITIONAL COSTS IF AT&T'S POSITION WERE ADOPTED?

A. No, not at all. Verizon asserts that if CLECs are allowed to have the jurisdiction of a call determined by the NPA-NXX of the calling and called numbers, it will somehow be saddled with "the entire cost of building and operating the FX transport network."[78] Such a claim is truly puzzling. AT&T is not asking Verizon to build anything to enable AT&T to provide its FX-like service. Moreover, Verizon's costs to deliver a call to AT&T do not vary depending on

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[77] *In the Matter of Intercarrier Compensation for ISP Bound Traffic*, CC Docket No. 96-98, Order on Remand and Report and Order, FCC 01-131, (rel. April 27,2001).

[78] Verizon Response at 63.

whether the call is destined to a customer in the calling party's native rate center or a customer in a foreign rate center. The cost to Verizon is exactly the same. This is true because Verizon delivers all traffic bound to the same AT&T NPA-NXX to the same AT&T point of interconnection ("POI") where traffic is exchanged with Verizon's network.

In other words, AT&T specifies a single POI for an NPA-NXX, regardless of the physical location of the AT&T terminating customer. Since the POI to which Verizon delivers traffic is the same, Verizon's network costs to deliver traffic to that POI are necessarily the same. Where there are any additional costs between AT&T's switch and the customer to complete such traffic, such costs are borne by AT&T. Thus, from the standpoint of reciprocal compensation, Verizon should be financially indifferent as to where calls are terminated within the AT&T network, since the physical location of the customer has no effect on the rates Verizon pays for transport and termination of the calls.

Q. IF VERIZON SHOULD BE FINANCIALLY INDIFFERENT ON THIS ISSUE, WHY DO YOU THINK IT IS SO OPPOSED TO AT&T'S POSITION?

A. I stated that Verizon should be financially indifferent as to where local calls are terminated within AT&T's network, since the physical location of the customer has no effect on the reciprocal compensation rates Verizon pays for transport and termination of the calls. Thus, Verizon's costs are not affected. One cannot say the same thing for their revenues, however, because, as Verizon has pointed out in its Answer, it could be losing toll or access revenues on such calls.

Specifically, Verizon stated that in the absence of AT&T's FX-like service, under Verizon's applicable tariffs, if the called party were a Verizon customer in the foreign rate center, "Verizon would collect toll charges if it handled the call, and originating access charges if another carrier handled the call."[79] Also, if the called party were a Verizon FX customer located in the foreign exchange, as Verizon acknowledged, Verizon could charge the called party the cost of interexchange access.[80]

Thus, we begin to see, via Verizon's own arguments, what this issue is really about. This issue is really about Verizon being made whole for ***competitive losses*** it is suffering due to AT&T providing this FX-like calling.

Verizon is attempting to cut its losses by relying on a regulatory artifice relating to its legacy local calling areas that even Verizon does not abide by when it is to its advantage. That is, when a Verizon customer in a certain rate center calls a Verizon FX number in that same rate center, which is assigned to a customer located in a foreign rate center, the call is rated as local. When an AT&T customer in a certain rate center calls a Verizon FX number in that same rate center, which is assigned to a Verizon customer located in a foreign rate center, the call is also rated as local. However, Verizon alleges that when a Verizon customer in a certain rate center calls an AT&T number in that same rate center that has been assigned to an AT&T customer located in a foreign rate center, the

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[79] Verizon Response at 62.

[80] *Id.*

call now magically is rated as toll. Verizon's position is illogical and self-serving and the Commission should reject it. While Verizon's revenues may well be affected by AT&T's local service offerings, that impact is a result of competition and Verizon should respond with its own competitive offering, rather than attempting to stifle AT&T's competitive product through the application of unreasonable anticompetitive conditions.

One of the clear benefits of opening the local market to competition is the incentive this action gives the participants in the market to deploy the most advanced, efficient facilities possible. It also imposes a strong incentive on the incumbent to "catch-up" by installing its own more efficient network, or to at least offer and price services as if it had deployed that network. Deployment of different network architectures is a major way that new entrants differentiate themselves and their service offerings from the incumbent. As we indicated in our introduction to the network architecture issues, the Commission should avoid identifying Verizon's network or its architecture as preeminent, or the CLEC's network as subordinate, nor should the Commission assign any preferential value to Verizon's network, its local calling areas, or its network architecture. It is the marketplace that will determine which network, or services best address the customers' needs.

Continuing to apply reciprocal compensation to both Verizon's FX and to AT&T's FX-like local calls as AT&T proposes will serve to ensure that all parties have the incentive to deploy the most advanced, efficient network possible. Adopting Verizon's position, however, will financially penalize CLECs and will

drive CLECs toward the ILEC status quo network, and deprive consumers of benefits that are now beginning to be experienced in the market.

Issue III.5 ***Tandem Rate*** Where the geographic coverage of an AT&T switch is comparable to that of a Verizon tandem, should AT&T and Verizon receive comparable reciprocal compensation for terminating the other parties' traffic?

Q. PLEASE DESCRIBE ISSUE III.5.

A. This issue is set forth in the DPL as follows: "Where the geographic coverage of an AT&T switch is comparable to that of a Verizon tandem, should AT&T and Verizon receive comparable reciprocal compensation for terminating the other parties' traffic?" AT&T asserts that it is justified in charging the applicable tandem switch service rate for the termination of Verizon's traffic on AT&T's network. Verizon, in its Answer asserts that, "to the extent local traffic does not pass through a CLEC tandem, the CLEC should not receive the higher tandem-switched rate but, rather, should receive the lower end-office rate for traffic routed directly to the CLEC's end-office."[81]

Q. WHAT DO THE FCC REGULATIONS STATE ON THIS ISSUE?

A. The FCC regulations recognize that there may be parity between a competitive carrier's end office switch and an ILEC tandem switch. They provide that when AT&T's switches provide comparable geographical coverage to Verizon's tandem switches, the tandem rate should apply to traffic terminated to those AT&T switches. The specific regulation, set forth in, 47 C.F.R. § 51.711 (a)(3), provides:

> Where the switch of a carrier other than an incumbent LEC serves a geographic area comparable to the area served by

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[81] Verizon Response at 64.

> the incumbent LEC's tandem switch, the appropriate rate for the carrier other than an incumbent LEC is the incumbent LEC's tandem interconnection rate.

Q. HAS THE FCC SPECIFICALLY ADDRESSED THIS REGULATION IN ANY OF ITS ORDERS?

A. Yes, several times; and each time it has clearly supported AT&T's position. First, in the *Local Competition Order*, the FCC stated:

> We find that the "additional costs" incurred by a LEC when transporting and terminating a call that originated on a competing carrier's network are likely to vary depending on whether tandem switching is involved. We, therefore, conclude that states may establish transport and termination rates in the arbitration process that vary according to whether the traffic is routed through a tandem switch or directly to the end-office switch. In such event, states shall also consider whether new technologies (*e.g.*, fiber ring or wireless networks) perform functions similar to those performed by an incumbent LEC's tandem switch and thus, whether some or all calls terminating on the new entrant's network should be priced the same as the sum of transport and termination via the incumbent LEC's tandem switch. Where the interconnecting carrier's switch serves a geographic area comparable to that served by the incumbent LEC's tandem switch, the appropriate proxy for the interconnecting carrier's additional costs is the LEC tandem interconnection rate.[82]

Despite this statement in the Local Competition Order, there still remained some controversy as to whether it was necessary to also examine the functionality of a CLEC switch as well as its geographic coverage when determining whether a CLEC was entitled to the tandem rate. The FCC has recently laid this controversy

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82 Local Competition Order at ¶1090 (emphasis added).

to rest in two recent pronouncements. The first is in its Intercarrier Compensation NPRM. In this NPRM the Commission stated,

> In addition, section 51.711(a)(3) of the Commission's rules requires only that the comparable geographic area test be met before carriers are entitled to the tandem interconnection rate for local call termination. Although there has been some confusion stemming from additional language in the text of the *Local Competition Order* regarding functional equivalency, section 51.711(a)(3) is clear in requiring only a geographic area test. Therefore, we confirm that a carrier demonstrating that its switch serves "a geographic area comparable to that served by the incumbent LEC's tandem switch" is entitled to the tandem interconnection rate to terminate local telecommunications traffic on its network. at ¶ 105.

The Commission reiterated this clarification in a May 9, 2001 letter relating to a Sprint PCS request on this same issue. In that letter the Commission cited the above quoted statement in the NPRM and affirmed that the geographic comparability test is the only applicable rule.[83]

Q. HAVE THERE BEEN ANY RECENT COURT DECISIONS ON THIS ISSUE?

A. Yes. The U.S. Court of Appeals for the Ninth Circuit also recently addressed the issue, reversing a ruling by the State of Washington Utilities and Transportation Commission (which had been affirmed by the U.S. District Court for the Western District of Washington) to find that AT&T Wireless must be compensated at the

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[83] Letter from Thomas J. Sugrue, Chief, Wireless Telecommunications Bureau of the FCC, and Dorothy ZT. Attwood, Chief, Common Carrier Bureau of the FCC, to Charles McKee, Senior Attorney. Sprint PCS (May 9, 2001).

tandem rate because its switches serve a comparable geographic area to U.S. West's tandem switches.[84]

That Order should settle the question (if there was any question remaining). The sole test for determining entitlement to the tandem rate is comparable geographic coverage. Functionality of the switch is irrelevant.

Q. DO AT&T'S SWITCHES IN VIRGINIA COVER A GEOGRAPHIC AREA COMPARABLE TO THE AREA COVERED BY EACH VERIZON SWITCH?

A. Yes. AT&T offers local exchange service in Virginia utilizing three separate networks. One network is operated on behalf of AT&T Communications of Virginia, Inc. ("AT&T Comm"). A second network is operated on behalf of TCG Virginia, Inc. and ACC National Telecom Corp. ("TCG"). A third network is operated on behalf of MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. ("MediaOne"). Their local service networks provide entirely distinct services and products to distinct classes of customers and are not integrated in any way. For this reason, AT&T proposes that each network may be judged independently for purposes of determining whether such network meets the standard under 47 C.F.R. § 51.711 (A)(3).

AT&T Comm has deployed 4ESS switches, which function primarily as long distance switches, and 5ESS switches, which act as adjuncts to the 4ESS switches. AT&T Comm has the ability to connect virtually any qualifying local

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[84] U.S. West Communications, Inc v. Washington Utilities and Transportation Commission, AT&T Wireless Services, Inc., CV-97-05686-BJR, No. 98-36013 (July 3, 2001). The

exchange customer in Virginia to one of these switches through dedicated access services offered by AT&T or another access provider.

TCG provides local exchange services using Class 5 switches. TCG is able to connect virtually any customer in a LATA to the TCG switch serving that LATA either through (1) TCG's own facilities built to the customer premises, (2) UNE loops provisioned through collocation in Verizon end offices, or (3) dedicated high-capacity facilities (special access services or combinations of UNEs purchased from Verizon).

MediaOne provides local exchange services using a Class 5 switch and is able to connect virtually any customer in its cable TV franchise area.

The Commission should order Verizon to pay the applicable tandem interconnection rate for the termination of local (non-ISP) traffic at each AT&T Comm, TCG and MediaOne switch. AT&T is justified in its request because the geographic area covered by each switch is comparable to the area covered by Verizon's tandem switches.

Q. HAVE YOU PREPARED ANY DOCUMENTATION THAT SUPPORTS YOUR CLAIM THAT THESE SWITCHES COVER A GEOGRAPHIC AREA COMPARABLE TO THE AREA COVERED BY VERIZON'S SWITCHES?

A. Yes. To assist the Commission in resolving this issue, we have prepared a series of maps that are marked as Exhibit DLT-8. Exhibit DLT-8 contains both color transparency maps and color copies (of the same maps). The transparent maps are

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Court cited both the Local Competition Order and the Commission's May 9, 2001 letter

supplied so that the Commission can "overlay" the maps and compare the geographic area served by AT&T, TCG and MediaOne switches and Verizon switches.

The first map, Exhibit DLT-8a[85], provides the number of switches AT&T Comm currently operates in Virginia on a LATA by LATA basis. It is important to note that in some cases, the AT&T switch serving a LATA is not physically located in the LATA. The second map, Exhibit DLT-8b,[86] shows the number of switches TCG currently operates in Virginia on a LATA by LATA basis. As with AT&T's switches, it is important to note that in some cases, the TCG switch serving a LATA is not physically located in the LATA. The third map, Exhibit DLT-8c[87] shows the switch MediaOne currently operates in Virginia in the Richmond LATA. Finally, Exhibit DLT-8d[88] shows the number of tandem switches Verizon Virginia currently operates in Virginia on a LATA by LATA basis. When maps 8a, 8b, 8c and 8d are superimposed over each other, it becomes clear that each and every AT&T, TCG and MediaOne switch covers a comparable or greater geographic area as that covered by the corresponding Verizon tandem switch.[89]

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in its ruling.

85 On the AT&T map, blue shading depicts the areas covered by AT&T's switches.

86 On the TCG map, green shading depicts the areas covered by TCG's switches.

87 On the MediaOne map, purple shading depicts the areas covered by TCG's switches.

88 On the Verizon maps, gold shading depicts areas covered by Verizon tandems.

89 Statewide and LATA-specific maps were created by using data contained in the Local Exchange Routing Guide (LERG). The LERG, produced by Telcordia Technologies, contains routing data that supports the current local exchange network configuration within the North American Numbering Plan (NANP) as well as identifying reported planned changes in the network. The LERG data in conjunction with MapInfo V-4.1.1.2,

Q. WHAT ABOUT VERIZON'S ASSERTION THAT THE GEOGRAPHIC COVERAGE TEST REQUIRES THAT THE CLEC SWITCH ACTUALLY SERVE A COMPARABLE GEOGRAPHIC AREA RATHER THAN WHETHER THE SWITCHES ARE CAPABLE OF SERVING COMPARABLE AREA?

A. Verizon is wrong on this, and it cites nothing which supports its position. It claims, on page 66 of its Response, that a Texas PUC decision supports its position on this issue. But a review of the cited passage makes clear that the Texas decision was focusing on the tandem functionality test that, as we stated above, is not applicable.[90] Thus, the decision is not on point.

There is a decision actually on point, however, and it supports AT&T's position, not Verizon's. The Michigan Public Service Commission examined the issue of the geographic comparability test in a MediaOne/Ameritech Arbitration.[91] There the arbitration panel concluded that MediaOne had failed to demonstrate that its network currently serves a geographic area comparable to SBC-Ameritech's in Michigan.[92] The Commission reversed the panel's decision. Although the Commission also addressed the functionality test which we now know does not

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a commercial mapping software package, was used to prepare the state-wide and LATA-specific maps attached herein.

90 In the case cited by Verizon, the Texas PUC stated "...to receive reciprocal compensation for performing *tandem functions* (emphasis supplied) the CLEC must demonstrate that it is actually serving the ILEC tandem area using *tandem like functionality*, instead of just demonstrating the capability to serve the comparable geographic area. In making this *functionality* determination. . ." *Proceeding to Examine Reciprocal Compensation Pursuant to Section 252 of the Federal Telecommunications Act of 1996*, Arbitration Award, Texas PUC at 28-29 (July 2000) (Emphasis supplied).

91 *Petition of MediaOne Telecommunications of Michigan, Inc/ for Arbitration Pursuant to Section 252(b) of the Federal Telecommunications Act of 1996 to Establish an Interconnection Agreement with Ameritech Michigan*, Michigan Public Service Commission, Case No. U-12198, Opinion and Order, (March 3, 2000) ("MediaOne Order")

apply, it is its statements relating to the geographic comparability that are relevant here.

Pointing to paragraph 1090 the FCC's *Local Competition Order* (which we quote above), the Commission noted that to establish that a competitive carrier's switches serve a geographic area comparable to that served by the ILEC's tandem switches, (a) the competitive carrier's network need not serve exactly the same area as that served by the ILEC and (b) the competitive carrier's network technology need not operate precisely in the same manner as the ILEC's network technology, if it provides the same or equivalent functionality.[93] The Commission concluded that MediaOne's SONET network did serve an area comparable to that served by SBC-Ameritech and did provide equivalent functionality:

> After reviewing the facts presented to the arbitration panel, the Commission is persuaded that the area served by MediaOne's SONET network is comparable to that served by Ameritech Michigan's tandem switch. In so finding, the Commission is aware that MediaOne does not yet have the same number of customers or locations of customers that the incumbent currently has. Yet the Commission is persuaded that MediaOne's switch is serving a geographic area that is broad enough to be considered comparable to an Ameritech Michigan tandem. MediaOne is currently licensed and holding itself out as a telecommunications provider in 42 communities in Southeast Michigan. In its orders licensing MediaOne to serve, the Commission held that MediaOne was capable of providing service to every person within the licensed areas. In the Commission's view, MediaOne sufficiently demonstrated that it serves a

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92 *MediaOne Order* at 15.

93 *Id.* at 18.

geographic area comparable to an Ameritech Michigan tandem. at 18.

Q. WHAT IS FUNDAMENTALLY WRONG WITH VERIZON'S ASSERTION THAT THE GEOGRAPHIC COVERAGE TEST REQUIRES THAT THE CLEC SWITCH ACTUALLY SERVE A COMPARABLE GEOGRAPHIC AREA RATHER THAN WHETHER THE SWITCHES ARE CAPABLE OF SERVING COMPARABLE AREA?

A. The notion that a CLEC must achieve a certain volume and density of customers in order to be "actually serving a given area" is, by its nature, completely arbitrary. Verizon does not assert a certain threshold in its brief, solely because to do so would demonstrate the arbitrary nature of its proposal. Rather, Verizon asserts that the Commission should, "... require the CLECs to prove that they merit tandem switched rates because their switches actually serve a geographically ***dispersed and mixed*** customer base." (emphasis mine) We suspect that Verizon would assert that a CLEC is actually serving an area only when the CLEC has achieved a volume and density of customers that is equal to Verizon's. Yet, if a CLEC has only a single customer in a certain area, that CLEC incurs costs to terminate Verizon traffic directed to that customer. Rule 51.711(a)(3) provides a proxy for the additional costs a CLEC incurs to terminate Verizon's traffic to that single customer where the CLEC network (switch and distribution facilities) is designed to serve an area comparable to an ILEC tandem switch. Any threshold number of customers greater than one, which Verizon would propose, would necessarily be an arbitrary number. The Commission should avoid deciding this matter on an arbitrary basis, rather it should decide the matter on law and sound public policy which encourages local

competition. AT&T's position is both consistent with the law and with the promotion of local competition.

Issue V.8 ***Competitive Tandem Service*** Should the contract terms relating to the Parties' joint provision of terminating meet point traffic to an IXC customer be reciprocal, regardless of which Party provides the tandem switching function? Put another way, should the contract terms make clear that AT&T and Verizon are peer local exchange carriers and should not bill one another for meet point traffic?

Q. PLEASE DESCRIBE ISSUE V.8.

A. Issue V.8 is set forth in the DPL as follows: "Should the contract terms relating to the Parties' joint provision of terminating meet point traffic to an IXC customer be reciprocal, regardless of which Party provides the tandem switching function? Put another way, should the contract terms make clear that AT&T and Verizon are peer local exchange carriers and should not bill one another for meet point traffic?" The issue centers around what type of rates, terms and conditions should apply between Verizon and AT&T when AT&T provides a competitive tandem service to IXCs. Under these circumstances, the IXC is AT&T's customer and AT&T carries the IXC's traffic from a point on the AT&T network and delivers it to multiple Verizon end offices.

As we will explain below, AT&T is proposing a revised arrangement which will eliminate some of Verizon's objections related to the provision of this service via meet point trunks, and which focuses the issue around the primary dispute, which is whether AT&T should be allowed to provide competitive tandem services via its interconnection with Verizon, and whether the terms regarding how this traffic is to be handled between the two carriers should be set forth in this interconnection agreement. The other major issue with respect to this service relates to whether AT&T should be permitted to obtain local switching or other facilities from Verizon as unbundled network elements when offering competitive

tandem services. This issue was addressed earlier in our testimony in the discussion of Issue V.1.

As we indicated in our discussion on the UNE competitive tandem issue, Verizon's position is that issues relating to competitive tandem service are not appropriate issues to be addressed in an interconnection agreement. Verizon has also refused to agree to reciprocal and fair terms for the provision of this service.

Verizon is wrong. As we explained in our testimony on the UNE competitive tandem issue, this issue is appropriate for consideration in the context of an interconnection agreement, there is a demand for this type of service, and AT&T does not plan to provide this service to itself as an IXC since it would not be profitable for it to do so.

Q. WHAT IS MEANT BY THE TERM "MEET POINT TRAFFIC?"

A. Meet point traffic is traffic between an IXC and a LEC that is routed through another LEC's tandem switch. Under a meet point arrangement, the IXC is the joint customer of the two LECs which collectively provide the exchange access service, hence the term "meet point." The most common meet point arrangement found today is IXC traffic that is routed through an ILEC tandem to a CLEC or ITC local customer. Verizon asserts that this is the only legitimate arrangement for meet point traffic. AT&T has advocated that AT&T and Verizon are peer LECs and that IXC traffic routed though a CLEC tandem to an ILEC local customer is also meet point traffic and the same terms should apply. Verizon does not recognize AT&T as a peer in this arrangement.

Q. WHAT HAS CHANGED IN AT&T'S POSITION?

A. I believe the parties have argued too long over terminology and have not focused sufficiently on developing acceptable contract terms. Whether or not the terms for competitive tandem service are labeled "meet point" is less important than having acceptable interconnection terms for competitive tandem service in the AT&T-Verizon interconnection agreement. Accordingly, AT&T will concede to have a separate contract section addressing competitive tandem services, provided that the contract terms are consistent with AT&T's rights under the law and allow AT&T to efficiently offer its competitive tandem service.

Q. CAN YOU PLEASE REPEAT HOW WOULD AT&T OFFER THIS SERVICE?

A. Yes. AT&T would offer competitive tandem service in Virginia to each Verizon end office where AT&T has established a direct connection. A direct connection could be established though an AT&T collocation arrangement, a third-party collocation arrangement, or if the Commission adopts AT&T's position under Issue V-1, via UNE dedicated transport. AT&T would configure its local network switches to tandem route the IXC traffic via direct end office Feature Group D trunks ordered from Verizon between the applicable Verizon end offices and the subscribing AT&T switch. AT&T would either provide the facilities between these two switches or would lease the facilities from third parties or from Verizon.

With respect to those Verizon end offices for which AT&T has no collocation arrangement, the subscribing IXC would have to route traffic that would otherwise go directly to that end office, through Verizon's access tandem. This

limitation on the service is necessary to enable the subscribing IXC to avoid paying two tandem switching functions (one to AT&T and one to Verizon).

Q. YOU MENTIONED THAT AT&T HAS REVISED ITS POSITION ON THIS ISSUE. CAN YOU DESCRIBE AT&T'S REVISED POSITION IN MORE DETAIL?

A. Yes. In an attempt to resolve this issue and focus the dispute on the critical issues, AT&T has modified its position in several ways and has provided some revised language on the issue which is set forth in Exhibit DLT-9. In general, the modifications all reflect AT&T's agreement not to treat its provision of competitive tandem service in the same manner as meet point traffic. The changes, however, still reflect AT&T's position that the terms and conditions relating to Competitive Tandem service should recognize that AT&T and Verizon are co-carriers in the provision of this service.

AT&T's original position was that its provision of competitive tandem service should be subject to the same terms that applied between AT&T and Verizon for meet point billing traffic when Verizon was passing the IXC traffic to AT&T. AT&T will now agree, however, that the terms for competitive tandem service do not need to be governed by the terms applicable to meet point billing trunks. Rather, AT&T will agree to treat these trunks separately and differently.

As part of this agreement not to treat the traffic AT&T delivers to Verizon as meet point traffic, AT&T has changed its original position that when AT&T provides this service, the Parties would not bill each other, but would bill the customer directly. AT&T's original position was based on the fact that when

Verizon provides the similar service via meet point trunks – when the IXC is interconnected to the Verizon tandem and the call is destined to an AT&T local customer– both parties agreed they would not bill one another. AT&T was simply proposing a similar arrangement.

AT&T's new position is that Verizon may bill AT&T for the function or functions it provides. That is, AT&T will agree to pay Verizon for the end office switching, and any dedicated transport as applicable, provided by Verizon. This new position should address Verizon's concern stated in its Answer on the related Issue V-I that AT&T has not "relieved Verizon of any of its cost functions."[94] With this new proposal Verizon will be fully compensated for its functions associated with the AT&T service.

As we stated in our testimony on Issue V.1, it is AT&T's position that the rates for such switching and any other facilities used should be UNE rates rather than exchange access rates.

Finally, AT&T proposed that the revenues received from AT&T's provision of competitive tandem services would be split consistent with the MECAB/MECOD guidelines. Although this proposal was not accurately reflected in AT&T's contract language filed at the FCC as a result of a clerical error, AT&T's Petition set forth AT&T's proposal to share the revenues based on the MECAB/MECOD

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[94] Verizon Response at 53.

guidelines.[95] AT&T's new proposal would be that the revenues not be shared. Rather, as noted above, Verizon will bill AT&T and AT&T will pay Verizon directly for the functions it provides to AT&T in the provision of this service. Given that Verizon will be compensated for all of the functions it provides, no type of revenue sharing would be appropriate.

Q. WHAT ABOUT THE TECHNICAL CONCERNS RAISED BY VERIZON IN ITS DISCUSSION OF ISSUE V-I? HAS AT&T ADDRESSED THESE?

A. Verizon stated that technical problems associated with a loss of CIC code billing detail arise when originating traffic is switched via two tandems – Verizon's tandem strips the CIC code from the initial address message, therefore the AT&T tandem would not receive the necessary billing detail. Verizon is creating a technical issue where none exists. As we previously stated, since it is uneconomical to have IXC traffic routed through both a Verizon tandem and an AT&T tandem, AT&T offers competitive tandem service only where a direct connection exists between the AT&T switch and a Verizon end office. Verizon's end office switch is capable of sending the CIC code to AT&T's tandem. In its exchange access tariff, Verizon offers an option associated with its Feature Group D trunks called Carrier Identification Parameter (CIP). CIP provides for the delivery of the IXC customer's carrier identification code (CIC) or the CIC designated by the originator of the call in the initial address message of the common channel signaling protocol. CIP is required to serve multiple IXC customers on a single trunk group. CIP is typically used where a large IXC

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[95] AT&T Petition at 87.

wholesales its interexchange service to IXC resellers. AT&T (the CLEC in this case) requires CIP to offer competitive tandem service to multiple IXCs. Verizon should be required to provide CIP to AT&T, when and where it is requested, under the terms of the interconnection agreement.

Q. WHAT WOULD BE THE EFFECT ON COMPETITION IF THE COMMISSION ADOPTED VERIZON'S PROPOSAL?

A. If the Commission adopted Verizon's proposal, future competition for exchange access services would basically be foreclosed. AT&T believes that Verizon will refuse to establish properly equipped FG-D trunks for competitive tandem service unless the terms for the arrangement are spelled out in the interconnection agreement. Thus, the smaller IXCs will continue to be placed at a competitive disadvantage since they will have no viable alternative service to purchase. Moreover, the absence of any significant competition in the exchange access service market also will adversely affect the FCC's access reform policies since the FCC indicated it was relying on competition to drive access rate levels towards costs.[96] A decision for Verizon on this issue will assure that there will be little market driven movement in the level of access rates.

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[96] First Report and Order, *Access Charge Reform*, 12 FCC Rcd 15982 (1996) ¶¶ 258-284.